

HIGHLANDS RECREATION DISTRICT

SAN MATEO, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Highlands Recreation District
San Mateo, California

We have audited the accompanying basic financial statements of the governmental activities and the major fund of Highlands Recreation District as of June 30, 2011, and for the fiscal year then ended, as listed in the table of contents. These basic financial statements are the responsibility of Highlands Recreation District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Highlands Recreation District as of June 30, 2011, and the respective changes in financial position for the fiscal year then ended in conformity with U.S. generally accepted accounting principles, as well as accounting systems prescribed by the State Controller's office and state regulations governing special districts.

Management's Discussion and Analysis (pages 2-6), and the required supplementary information (page 22) listed in the table of contents, is supplementary information required by the Governmental Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
December 8, 2011

Highlands Recreation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2011
(Unaudited)

This section of Highlands Recreation District's (the District's) basic financial statements presents management's overview and analysis of the financial activities of the organization for the fiscal year ended June 30, 2011. We encourage the reader to consider the information presented here in conjunction with the District's basic financial statements, including notes and supplementary information that immediately follow this section, as a whole.

Introduction to the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's audited financial statements, which are comprised of the basic financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments*. The Single Governmental Program for Special Purpose Governments reporting model is used which best represents the activities of the District.

The required financial statements include the Government-wide and Fund Financial Statements; Statement of Net Assets and Governmental Fund Balance Sheet; Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances; and the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual-All Governmental Fund Types.

These statements are supported by notes to the basic financial statements. All sections must be considered together to obtain a complete understanding of the financial picture of the District.

The Basic Financial Statements

The Basic Financial Statements comprise the Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the District's financial activities and financial position.

The Government-wide Financial Statements provide a longer-term view of the District's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the District as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of the District's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of the District's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the District's activities are grouped into Government Activities, as explained below.

The Fund Financial Statements report the District's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of the District's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the District and are presented individually. Major Funds are explained below.

Highlands Recreation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2011
(Unaudited)

The Government-wide Financial Statements

Government-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the District as a whole.

The Statement of Net Assets and the Statement of Activities present information about the following:

Governmental Activities

The District's basic services are considered to be governmental activities. These services are supported by general District revenues such as taxes, and by specific program revenues such as user fees and charges.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the District's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement No. 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually; the District has no Non-major Funds. Major Funds present the major activities of the District for the year, and may change from year to year as a result of changes in the pattern of the District's activities.

In the District's case, the General Fund is the only Major Governmental Fund.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented for the General Fund.

Analyses of Major Funds

Governmental Funds

General Fund revenues decreased \$52,542 this fiscal year due primarily to decreases in park and recreation fees. Property taxes decreased \$2,333 as assessed valuations decreased. Actual revenues were less than budgeted amounts by \$94,319.

General Fund expenditures were \$3,152,936, an increase of \$1,470,791 from the prior year due to the increase in capital projects and facilities renovation. Expenditures were greater than budgeted by \$1,259,958.

Highlands Recreation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2011
(Unaudited)

Governmental Activities

Table 1
Governmental Net Assets

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current assets	\$ 3,251,450	\$ 1,147,148
Capital assets	<u>2,596,605</u>	<u>1,484,534</u>
Total assets	<u>5,848,055</u>	<u>2,631,682</u>
<u>Liabilities</u>		
Current liabilities	545,866	168,824
Noncurrent liabilities	<u>3,195,000</u>	<u>-</u>
Total liabilities	<u>3,740,866</u>	<u>168,824</u>
<u>Net Assets</u>		
Invested in capital assets, net of debt	(598,395)	1,484,534
Unrestricted	<u>2,705,584</u>	<u>978,324</u>
Total net assets	<u>\$ 2,107,189</u>	<u>\$ 2,462,858</u>

The District's governmental net assets amounted to \$2,107,189 as of June 30, 2011, a decrease of \$355,669 over 2010. The decrease is the Change in Net Assets reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The District's net assets as of June 30, 2011 comprised the following:

- Cash and investments of \$1,266,241.
- Other assets of \$57,226 of current receivables and \$10,535 of prepaid expenses.
- Capital assets of \$2,596,605 net of depreciation charges, which includes all the District's capital assets used in governmental activities.
- Liabilities, including accounts payable and other liabilities, totaling \$545,866.
- The District issued Certificates of Participation of \$3,195,000 during the year.
- Net assets invested in capital assets, net of related debt, of \$(598,395) representing the District's investment in capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.
- Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The District has \$2,705,584 of unrestricted net assets as of June 30, 2011.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Assets summarized below.

Highlands Recreation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Year Ended June 30, 2011
 (Unaudited)

Table 2
Changes in Governmental Net Assets

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
<u>Expenses</u>		
Recreation and Parks	\$ 2,006,398	\$ 1,525,703
Interest expense	93,552	-
Total expenses	<u>2,099,950</u>	<u>1,525,703</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	<u>1,373,452</u>	<u>1,425,416</u>
Total program revenues	<u>1,373,452</u>	<u>1,425,416</u>
General revenues:		
Property taxes	361,213	363,546
Interest income	<u>9,616</u>	<u>7,862</u>
Total general revenues	<u>370,829</u>	<u>371,408</u>
Total revenues	<u>1,744,281</u>	<u>1,796,824</u>
Change in net assets	<u>\$ (355,669)</u>	<u>\$ 271,121</u>

As Table 2 above shows, \$1,373,452, or 79%, of the District's fiscal year 2011 governmental revenue came from program revenues and \$370,829, or 21%, came from general revenues such as taxes and interest.

Program revenues were composed of charges for services of \$1,373,452.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Capital Assets

Detail on capital assets, current year additions and construction in progress can be found in Note 4.

Debt Administration

The District's debt issue is discussed in detail in Note 5 to the basic financial statements. As of June 30, 2011, the District's debt comprised:

Certificates of Participation	<u>\$ 3,195,000</u>
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Economic Outlook and Major Initiatives

The District's financial position continues to be adequate. Financial planning is based on specific assumptions from recent trends in real property values, State of California economic forecasts and historical growth patterns in the various communities served by the District.

The economic condition of the District as it appears on the balance sheet reflects financial stability and the potential for organizational growth. The District will continue to maintain a watchful eye over expenditures and remain committed to sound fiscal management practices to deliver the highest quality service to the citizens of the area.

Highlands Recreation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2011
(Unaudited)

Contacting the District Financial Management

This comprehensive Annual Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the District's finances. Questions regarding this report should be directed to: General Manager of Highlands Recreation District, 1851 Lexington Avenue, San Mateo, California 94402.

Highlands Recreation District
STATEMENT OF NET ASSETS

June 30, 2011

ASSETS

Cash and investments	\$ 1,266,241
Restricted cash with fiscal agent	1,917,448
Accounts and interest receivable	57,226
Prepaid items	10,535
Non-depreciable capital assets	1,631,934
Depreciable capital assets, net of accumulated depreciation	<u>964,671</u>
Total assets	<u>5,848,055</u>

LIABILITIES

Accounts payable	379,196
Accrual claims and other liabilities	166,670
Long-term liabilities:	
Due in more than one year	<u>3,195,000</u>
Total liabilities	<u>3,740,866</u>

NET ASSETS

Invested in capital assets, net of related debt	(598,395)
Unrestricted	<u>2,705,584</u>
Total net assets	<u>\$ 2,107,189</u>

The accompanying notes are an integral part of these financial statements

Highlands Recreation District
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

		<u>Program Revenues</u>	Net (Expense) Revenue and Changes in Net Assets
<u>Functions/Programs</u>	<u>Expenditures</u>	<u>Charges for Services</u>	<u>Total Governmental Activities</u>
Governmental activities:			
Recreation and parks	\$ 2,006,398	\$ 1,373,452	\$ (632,946)
Interest	93,552	-	(93,552)
	<u>2,099,950</u>	<u>1,373,452</u>	<u>(726,498)</u>
Total governmental activities			
	<u>\$ 2,099,950</u>	<u>\$ 1,373,452</u>	<u>(726,498)</u>
General revenues:			
Property taxes			361,213
Interest and investment earnings			9,616
			<u>370,829</u>
Total general revenues			
			<u>370,829</u>
Change in net assets			(355,669)
Net assets, beginning of period			2,462,858
Net assets, end of period			<u>\$ 2,107,189</u>

The accompanying notes are an integral part of these financial statements

Highlands Recreation District
GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2011

ASSETS

	General Fund
Cash and investments available for operation	\$ 1,266,241
Restricted cash with fiscal agent	1,917,448
Accounts and interest receivable	57,226
Prepaid items	<u>10,535</u>
Total assets	<u>\$ 3,251,450</u>

LIABILITIES

Accounts payable	\$ 379,197
Accrued expenditures	<u>107,584</u>
Total liabilities	<u>486,781</u>

FUND BALANCES

Reserved for:	
Assigned for capital outlay	593,295
Assigned for contingencies	228,000
Unassigned	<u>1,943,374</u>
Total fund balances	<u>2,764,669</u>
Total liabilities and fund balances	<u>\$ 3,251,450</u>

The accompanying notes are an integral part of these financial statements

Highlands Recreation District
Reconciliation of the
GOVERNMENTAL FUND - BALANCE SHEET
with the Governmental Activities
STATEMENT OF NET ASSETS
For the Year Ended June 30, 2011

TOTAL FUND BALANCES - GOVERNMENTAL FUND	\$ 2,764,669
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Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Fund above because of the following:

CAPITAL ASSETS

Capital Assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Fund.

2,596,605

LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Accrued interest payable

(59,085)

General Obligation Bond

(3,195,000)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>2,107,189</u>
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The accompanying notes are an integral part of these financial statements

Highlands Recreation District
GOVERNMENTAL FUND
STATEMENT OF REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2011

	<u>General Fund</u>
Revenues:	
Property taxes	\$ 361,213
Park and recreation fees	1,353,280
Miscellaneous	<u>29,788</u>
Total revenues	<u>1,744,281</u>
Expenditures:	
Salaries and fringe benefits	1,093,492
Professional services	22,803
Operating expenses	210,186
Office expenses	67,225
Repair and maintenance	73,793
Capital outlay	151,644
Capital outlay - child care center/bond financing	1,499,326
Debt service:	
Interest expense	<u>34,467</u>
Total expenditures	<u>3,152,936</u>
Excess (deficit) of revenues	
over (under) expenditures	<u>(1,408,655)</u>
Other financing sources:	
Bond proceeds	<u>3,195,000</u>
Total financing sources	<u>3,195,000</u>
Net change in fund balances	1,786,345
Fund balances, beginning of period	<u>978,324</u>
Fund balances, end of period	<u>\$ 2,764,669</u>

The accompanying notes are an integral part of these financial statements

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 - GENERAL

The Highlands Recreation District (the District) functions under the Community Services District law pursuant to government code 61000 et seq, for the purpose of providing recreational services within the District. Services are provided under the leadership and direction of an elected Board of Directors. The Board of Directors is committed to responding to the needs of the community based on timely and fiscally responsible prioritized planning. Financial support for planning, organizing, and conducting all activities is derived from property taxes, program fees and special purpose grants. Some activities are available to non-residents of the District on a fee for service basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounts and Records

The District maintains a cash receipts journal for recording fees collected at 1851 Lexington Avenue. The assessment of property, collection of taxes, disbursement of cash, and the maintenance of the general ledger for all funds are provided by the County of San Mateo. Custodianship of the District's accounts and records are vested with the Treasurer of San Mateo County.

The County of San Mateo maintains its financial records on a computer, utilizing a monthly reporting cycle. Every month the Controller issues a computer printout of revenues collected, disbursements by objective and a trial balance for the period then ended.

B. Accounting Principles

The District accounts for its financial transactions in accordance with the policies and procedures recommended by the State of California. The accounting policies of the District conform to U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

(1) Government-wide and Fund Financial Statements:

The government-wide financial statements (the statement of net assets and the statement of activities) report on the District as a whole. The statement of activities demonstrates the degree to which the direct expenses of the District's functions are offset by program revenues. *Direct expenses* are those that are clearly identifiable with the District's functions. *Program revenues* include charges for services, which are mainly from park and recreation fees. Other items not properly included among program revenues are reported instead as *general revenues*. The District's General Fund is presented as a separate financial statement (balance sheet and the statement of revenues, expenditures and changes in fund balance).

(2) Measurement Focus, Basis of Accounting and Financial Statement Presentation:

Government-wide Financial Statements

The statement of net assets and the statement of activities are prepared using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Accounting Principles (concluded)

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Unassigned Fund Equity – The residual classification for the government's general fund that includes all amounts not contained in the other classifications.

Assigned Fund Equity – Amounts intended to be used by the government for specific purposes but that do not meet the criteria to be classified as restricted or committed.

The District reports the following major governmental fund:

General Fund: This is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. There are no other funds of the District.

(3) Use of Estimates:

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures/expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

C. Budget and Budgetary Accounting

The District normally adopts an annual budget on or before August 30 for the ensuing fiscal year. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Legally adopted annual budgets and formal budgetary integration is employed as a management control device during the year for the General Fund only.
- (2) The budgets for the General Fund are adopted on a basis consistent with GAAP.
- (3) Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year, which were contingent upon new or additional revenue and re-appropriated amounts for prior year encumbrances.
- (4) Budget appropriations for the various governmental funds become effective each July 1. The Board of Directors may amend the budget during the fiscal year.

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

D. Capital Assets

Capital assets are those purchased or acquired that are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlay, in excess of \$5,000, that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets' lives are not capitalized, but are expensed as incurred.

Depreciation is computed using straight line over the following estimated useful lives:

Structures and improvements	5 - 50 years
Equipment	3 - 30 years

E. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 3 - CASH AND INVESTMENTS

The District's cash is held by the San Mateo County Treasurer in the San Mateo County (the County) investment pool and by Borel Bank. The Treasurer invests the cash under policy guidelines established by the County. Credit risk, concentration credit risk, and interest rate risk information regarding the cash held by the Treasurer is included in the Comprehensive Annual Financial Report of the County of San Mateo. The County is restricted by state code in the types of investments it can make. Furthermore, the Treasurer has a written investment policy, approved by the Board of Supervisors, which is more restrictive than state code as to terms of maturity and type of investment. Also, the County has an investment committee, which performs regulatory oversight for its pool as required by California Government Code Section 27134.

The County's investment policy authorizes the County to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool. At June 30, 2011, the District's cash with the County Treasurer is stated at fair value. However, the value of the pool shares in the County that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool.

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 - CASH AND INVESTMENTS (continued)

Cash and investments consisted of the following as of June 30, 2011:

	Fair Value	Investment Risk
Petty Cash	\$ 200	N/A
Cash in County Treasury	1,072,260	N/A
Cash in Borel Bank	193,781	N/A
Total cash and investments	<u>\$ 1,266,241</u>	

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for deposits and investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California Law requires banks and savings and loan associations to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law, this collateral is held in the District's name and places the District ahead of general creditors of the institution.

Restricted and Designated Cash and Equivalents

The District is required under the terms of certain long-term debt covenants to segregate and maintain certain funds for debt service. As of June 30, 2011 the balance of these funds was \$1,917,448.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments in the fiscal agent money market funds are not evidenced by specific securities and, therefore, are not subject to custodial credit risk.

Authorized Investments

The District's investments are carried at fair value instead of cost, as required by U.S. generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end if material, and it includes the effects of these adjustments in income for that fiscal year.

Investments Authorized by Debt Agreements

Investments of bond proceeds, held by bond trustees, are governed by the provisions of the debt agreements, rather than the general provisions for the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 - CASH AND INVESTMENTS (concluded)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
Money Market Accounts	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensibility of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Pooled Cash and Investments

Information about the sensibility of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
Held by Fiscal Agent:					
Money Market Accounts	<u>\$ 1,917,448</u>	<u>\$ 1,917,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. That is measured by the assignment of a rating by a nationally recognized rating organization. Presented below is the minimum rating required by the California Government Code, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Held by Fiscal Agent:						
Money Market Accounts	<u>\$ 1,917,448</u>	N/A	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,917,448</u>

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 4 - CAPITAL ASSETS

An analysis of fixed assets at June 30, 2011, is as follows:

<u>Governmental Activities</u>	Balance 6/30/10	Additions	Retirements	Balance 6/30/11
Capital assets, not being depreciated:				
Land	\$ 19,532	\$ -	\$ -	\$ 19,532
Construction in progress	501,080	1,111,322	-	1,612,402
Total capital assets, not being depreciated	520,612	1,111,322	-	1,631,934
Capital assets, being depreciated:				
Buildings	1,048,807	141,820	(278,703)	911,924
Improvements	310,673	-	-	310,673
Equipment	204,750	7,717	(17,580)	194,887
Total capital assets, being depreciated	1,564,230	149,537	(296,283)	1,417,484
Less accumulated depreciation for:				
Buildings	(359,791)	(52,724)	220,985	(191,530)
Improvements	(112,108)	(12,734)	-	(124,842)
Equipment	(128,409)	(18,778)	10,746	(136,441)
Total accumulated depreciation	(600,308)	(84,236)	231,731	(452,813)
Total capital assets being depreciated - net	963,922	65,301	(64,552)	964,671
Capital assets - net depreciation	\$ 1,484,534	\$ 1,176,623	\$ (64,552)	\$ 2,596,605

NOTE 5 - LONG-TERM DEBT

The following is a summary of debt transactions for the year ended June 30, 2011:

General Obligation Bonds, Series A

On December 9, 2010, the District issued \$3,195,000 of certificates of participation. The debt was issued for the purpose of constructing a new early childcare center. The debt was issued with a maturity of September 1, 2040 and will carry an interest rate of 5.5%.

The following is a summary of changes in long-term debt as of June 30, 2011:

	June 30, 2010	Additions	Retirements	June 30, 2011	Current
General Obligation	\$ -	\$ 3,195,000	\$ -	\$ 3,195,000	\$ -

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 5 - LONG-TERM DEBT (concluded)

Principal payments on the debt are due September 1 and interest is due on August 1 and March 1 of every year. Debt service requirements are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service Total</u>
2012	\$ -	\$ 177,256	\$ 177,256
2013	50,000	176,256	226,256
2014	55,000	174,156	229,156
2015	55,000	171,956	226,956
2016	60,000	169,656	229,656
2017	60,000	167,256	227,256
2018	65,000	164,675	229,675
2019	65,000	161,669	226,669
2020	70,000	158,294	228,294
2021	70,000	154,794	224,794
2022	75,000	151,169	226,169
2023	80,000	147,294	227,294
2024	85,000	143,116	228,116
2025	90,000	138,575	228,575
2026	95,000	133,659	228,659
2027	95,000	128,553	223,553
2028	100,000	123,250	223,250
2029	110,000	117,406	227,406
2030	115,000	111,006	226,006
2031	120,000	104,250	224,250
2032	130,000	96,900	226,900
2033	135,000	88,950	223,950
2034	145,000	80,550	225,550
2035	150,000	71,700	221,700
2036	160,000	62,400	222,400
2037	170,000	52,500	222,500
2038	180,000	42,000	222,000
2039	190,000	30,900	220,900
2040	205,000	19,050	224,050
2041	215,000	6,450	221,450
Total	<u>\$ 3,195,000</u>	<u>\$ 3,525,646</u>	<u>\$ 6,720,646</u>

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 6 - PROPERTY TAX LEVY, COLLECTION AND MAXIMUM RATES

The State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless voters have approved an additional amount. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among counties, cities, school districts and other districts. Counties, cities, school districts and other districts may levy such additional tax as is necessary to provide for voter approved debt service.

The County of San Mateo assesses properties, and bills and collects property taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	March 1	March 1
Lien/levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

The term "unsecured" refers to taxes on property not secured by liens on real property.

Property taxes levied are recorded as revenue when received, in the fiscal year of levy, due to the adoption of the "alternate method" of property tax distribution, known as the Teeter Plan, by the District and the County of San Mateo. The Teeter Plan authorizes the auditor/controller of the County of San Mateo to allocate 100% of the secured property taxes billed, but not yet paid. The County of San Mateo remits tax monies to the District in five installments as follows:

5% remitted in November
45% remitted in December
5% remitted in March
35% remitted in April
10% remitted in June

NOTE 7 - RISK MANAGEMENT

The District is insured for general liability and property by the California Association for Park Recreation Insurance, a joint powers agency comprised of California special districts. The District's general liability limits are as follows:

<u>COVERAGE</u>	<u>LIMIT</u>
General Liability	\$1,000,000 per occurrence
Automobile Liability	\$1,000,000 per occurrence
Public Officials and Employee Liability	\$1,000,000 per occurrence

Flood and Earthquake coverage has an annual aggregate limit of \$10,000,000 for flood and \$5,000,000 for earthquake for all member districts. The deductible for all loss or damage arising from the risks of flood and/or earthquake is \$50,000 per occurrence or 5% of the value of the building, contents and/or structure damage, whichever is greater. A \$20,000 deductible applies to any covered claim under Public Officials and Employee Liability for wrongful termination. All-Risks Property Loss coverage is subject to a \$2,000 deductible per occurrence.

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 8 - EMPLOYEE BENEFIT PLAN

The District has a Tax Deferred Simple IRA Plan that is available to exempt employees that earned \$5,000 or more in the preceding year. The District contributes 2.5% of the employee's gross annual salary. The District's contributions for the year ending June 30, 2011 were \$9,492.

Highlands Recreation District
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

Budget and Actual
For the Year Ended June 30, 2011
(Unaudited)

	General Fund			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 365,000	\$ 365,000	\$ 361,213	\$ (3,787)
Interest	8,000	8,000	9,616	1,616
Park and recreation fees	1,435,400	1,435,400	1,353,280	(82,120)
Miscellaneous	30,200	30,200	20,172	(10,028)
Total revenues	<u>1,838,600</u>	<u>1,838,600</u>	<u>1,744,281</u>	<u>(94,319)</u>
Expenditures:				
Salaries and employee benefits	1,115,578	1,118,278	1,093,492	24,786
Clothing	6,000	8,500	6,937	1,563
Telephone	6,700	6,700	3,562	3,138
Other household	24,300	24,300	23,336	964
Insurance	37,000	37,000	32,383	4,617
Maintenance structures and grounds	95,000	95,000	73,793	21,207
Memberships	7,000	7,000	4,432	2,568
Office expense	72,000	72,000	67,226	4,774
Service and consultations	27,800	27,800	22,803	4,997
District operating expenses	96,100	96,100	75,713	20,387
Utilities	71,000	71,000	63,822	7,178
Debt service interest expense	-	-	34,467	(34,467)
Capital outlay - child care center/bond financing	-	-	1,499,326	(1,499,326)
Capital outlay	334,500	329,300	151,644	177,656
Total expenditures	<u>1,892,978</u>	<u>1,892,978</u>	<u>3,152,936</u>	<u>(1,259,958)</u>
Excess (deficit) of revenues over (under) expenditures	<u>\$ (54,378)</u>	<u>\$ (54,378)</u>	<u>(1,408,655)</u>	<u>\$ (1,354,277)</u>
Other financing sources:				
Bond proceeds			3,195,000	
Total financing sources			<u>3,195,000</u>	
Net change in Fund Balances			1,786,345	
Fund balances, beginning of period			<u>978,324</u>	
Fund balances, end of period			<u>\$ 2,764,669</u>	